



Gamagara Local Municipality
Annual Financial Statements
for the year ended June 30, 2016

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

General Information

Members of the council

Executive Mayor	Hon. Cllr. D.P. Moyo
Councillors	Cllr. V.L. Gorrah Cllr.T.E. Tiroyame Cllr. O.E. Hantsie Cllr. P.T. Selonyane Cllr. G. Vos Cllr. I. Obuseng Cllr. H. Du Plessis Cllr. F. Visser Cllr. B.F. Van Wyk

Grading of local authority	Grade 2
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Accounting Officer	T.C. Itumeleng
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Chief Finance Officer (CFO)	N.M. Grond
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Registered office	Civic Centre Cnr Hendrik Van Eck & Frikkie Meyer Rd Kathu 8446
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Postal address	PO Box 1001 Kathu 8446
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Bankers	First National Bank
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Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Gamagara Local Municipality

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APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 1 to 110, in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003) and which I have signed on behalf of the municipality.

TC ITUMELENG
MUNICIPAL MANAGER
31 August 2016

NM GROND
CHIEF FINANCIAL OFFICER
31 August 2016

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

CERTIFICATION OF REMUNERATION OF COUNCILLORS

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

TC ITUMELENG
MUNICIPAL MANAGER
31 August 2016

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Financial Position as at June 30, 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	3	1,205,016	985,551
Receivables from exchange transactions	4	1,461,784	8,941,949
Receivables from non-exchange transactions	5	4,058,242	5,365,135
VAT receivable	6	2,844,249	2,206,464
Cash and cash equivalents	7	13,296,414	8,220,588
Operating lease asset	8	95,247	108,280
		22,960,952	25,827,967
Non-Current Assets			
Property, plant and equipment	9	899,355,045	890,517,825
Intangible assets	10	2,632,437	3,364,042
Investment property	11	218,401,747	194,309,757
Heritage assets	12	74,581	74,581
		1,120,463,810	1,088,266,205
Total Assets		1,143,424,762	1,114,094,172
Liabilities			
Current Liabilities			
Consumer deposits	13	5,727,186	5,709,474
Provisions	14	1,466,472	1,329,047
Payables from exchange transactions	15	93,875,564	1,086,573
Taxes and transfers payable (non-exchange)	16	45,341,694	34,333,138
Other financial liabilities	17	7,451,639	3,802,618
Unspent conditional grants and receipts	18	17,737,594	1,532,206
Finance lease obligation	19	663,718	-
Bank overdraft	7	-	27,239,699
		172,263,867	75,032,755
Non-Current Liabilities			
Other financial liabilities	17	21,254,036	25,435,357
Finance lease obligation	19	2,299,429	-
Employee benefit obligation	20	43,591,385	37,307,192
Provisions	14	2,847,949	2,601,817
		69,992,799	65,344,366
Total Liabilities		242,256,666	140,377,121
Net Assets			
Accumulated surplus	21	901,168,095	973,717,047

* See Note 57

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	28	221,315,256	266,593,541
Rental of facilities and equipment	29	349,151	253,651
Interest received	30	265,942	1,120,196
Agency services	25	2,597,835	2,473,165
Other income	31	1,489,667	1,800,134
Total revenue from exchange transactions		226,017,851	272,240,687
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	415,583,674	390,935,862
Licences and permits	24	538,313	830,150
Transfer revenue			
Government grants & subsidies	26	43,335,940	48,359,768
Public contributions and donations	27	927,801	6,408,237
Fines, Penalties and Forfeits	23	683,189	362,648
Total revenue from non-exchange transactions		461,068,917	446,896,665
Total revenue		687,086,768	719,137,352
Expenditure			
Employee related costs	32	(115,579,365)	(105,186,350)
Remuneration of councillors	33	(2,931,554)	(2,793,291)
Depreciation and amortisation	34	(58,959,838)	(58,417,420)
Impairment loss	35	(403,645,252)	(417,470,554)
Finance costs	37	(3,922,833)	(3,360,793)
Repairs and maintenance	36	(13,533,549)	(15,492,517)
Bulk purchases	38	(109,898,617)	(96,890,964)
Contracted services	39	(14,079,642)	(13,643,205)
Transfers and Subsidies	40	(2,343,317)	(2,402,570)
General Expenses	41	(58,677,175)	(34,910,843)
Total expenditure		(783,571,142)	(750,568,507)
Operating deficit			
Loss on disposal of assets and liabilities	42	(156,569)	-
Fair value adjustments	58	24,091,990	21,155,991
Deficit for the year		23,935,421	21,155,991
Deficit for the year		(72,548,953)	(10,275,164)

* See Note 57

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	946,643,611	946,643,611
Adjustments	37,348,601	37,348,601
Correction of errors		
Balance at July 1, 2014 as restated*	983,992,212	983,992,212
Changes in net assets		
Surplus for the year	(10,275,165)	(10,275,165)
Total changes	(10,275,165)	(10,275,165)
Opening balance as previously reported	1,310,446,025	1,310,446,025
Adjustments		
Correction of errors		
Restated* Balance at July 1, 2015 as restated*	973,717,048	973,717,048
Changes in net assets		
Surplus for the year	(72,548,953)	(72,548,953)
Total changes	(72,548,953)	(72,548,953)
Balance at June 30, 2016	901,168,095	901,168,095
Note(s)		

* See Note 57

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Property rates		416,150,325	392,924,084
Service charges		228,795,419	279,629,531
Grants		59,541,328	48,674,845
Interest income		265,942	1,120,196
Other receipts		5,658,155	5,719,748
Public Contributions and Donations	27	927,801	6,408,237
		711,338,970	734,476,641
Payments			
Employee costs		(108,338,408)	(99,667,245)
Suppliers		(498,660,509)	(554,949,339)
Finance costs		(3,922,833)	(3,360,793)
Remuneration of Councillors		(2,931,554)	(2,793,291)
		(613,853,304)	(660,770,668)
Net cash flows from operating activities	43	97,485,666	73,705,973
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(64,512,556)	(65,093,940)
Proceeds from sale of property, plant and equipment	9	553,787	-
Purchase of other intangible assets	10	(177,155)	(2,884,596)
Net cash flows from investing activities		(64,135,924)	(67,978,536)
Cash flows from financing activities			
Repayment of Borrowings		(532,300)	(4,422,609)
Finance lease payments		(501,918)	-
Net cash flows from financing activities		(1,034,218)	(4,422,609)
Net increase/(decrease) in cash and cash equivalents		32,315,524	1,304,828
Cash and cash equivalents at the beginning of the year		(19,019,112)	(20,323,942)
Cash and cash equivalents at the end of the year	7	13,296,412	(19,019,114)

* See Note 57

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	200,918,640	62,000,609	262,919,249	221,315,256	(41,603,993)	Note 56
Rental of facilities and equipment	684,699	-	684,699	349,151	(335,548)	Note 56
Interest received	529,000	-	529,000	265,942	(263,058)	Note 56
Agency services	2,303,758	-	2,303,758	2,597,835	294,077	Note 56
Licences and permits	918,676	-	918,676	538,313	(380,363)	Note 56
Other income	3,595,901	-	3,595,901	1,489,667	(2,106,234)	Note 56
Total revenue from exchange transactions	208,950,674	62,000,609	270,951,283	226,556,164	(44,395,119)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	419,610,876	(187,668,940)	231,941,936	415,583,674	183,641,738	Note 56
Transfer revenue						
Government grants & subsidies	98,264,855	(34,705,851)	63,559,004	43,335,940	(20,223,064)	Note 56
Public contributions and donations	75,000,000	(63,000,000)	12,000,000	927,801	(11,072,199)	Note 56
Fines, Penalties and Forfeits	323,653	500,000	823,653	683,189	(140,464)	Note 56
Total revenue from non-exchange transactions	593,199,384	(284,874,791)	308,324,593	460,530,604	152,206,011	
Total revenue	802,150,058	(222,874,182)	579,275,876	687,086,768	107,810,892	
Expenditure						
Personnel	(146,261,409)	21,362,915	(124,898,494)	(115,579,365)	9,319,129	Below 10%
Remuneration of councillors	(3,207,908)	(107,864)	(3,315,772)	(2,931,554)	384,218	Note 56
Depreciation and amortisation	(58,019,350)	-	(58,019,350)	(58,959,838)	(940,488)	Below 10%
Impairment loss/ Reversal of impairments	(7,245,812)	(59,389,559)	(66,635,371)	(403,645,252)	(337,009,881)	Note 56
Finance costs	(5,439,988)	(1,251,170)	(6,691,158)	(3,922,833)	2,768,325	Note 56
Repairs and maintenance	(29,864,728)	9,411,104	(20,453,624)	(13,533,549)	6,920,075	Note 56
Bulk purchases	(124,019,082)	-	(124,019,082)	(109,898,617)	14,120,465	Note 56
Contracted Services	(25,591,014)	5,964,058	(19,626,956)	(14,079,642)	5,547,314	Note 56
Transfers and Subsidies	(6,901,072)	(3,258,532)	(10,159,604)	(2,343,317)	7,816,287	Note 56
General Expenses	(90,303,858)	13,180,592	(77,123,266)	(58,677,175)	18,446,091	Note 56
Total expenditure	(496,854,221)	(14,088,456)	(510,942,677)	(783,571,142)	(272,628,465)	
Operating deficit	305,295,837	(236,962,638)	68,333,199	(96,484,374)	(164,817,573)	
Loss on disposal of assets and liabilities	15,000,000	553,786	15,553,786	(156,569)	(15,710,355)	Note 56
Fair value adjustments	-	-	-	24,091,990	24,091,990	Note 56
Deficit before taxation	15,000,000	553,786	15,553,786	23,935,421	8,381,635	
Deficit before taxation	320,295,837	(236,408,852)	83,886,985	(72,548,953)	(156,435,938)	

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Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	320,295,837	(236,408,852)	83,886,985	(72,548,953)	(156,435,938)	

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	650,000	-	650,000	1,205,016	555,016	Note 56
Operating lease asset	-	-	-	95,247	95,247	Note 56
Receivables from non-exchange transactions	-	-	-	4,058,242	4,058,242	Note 56
VAT receivable	-	-	-	2,844,249	2,844,249	Note 56
Consumer debtors	28,073,000	-	28,073,000	1,461,785	(26,611,215)	Note 56
Cash and cash equivalents	5,443,746	-	5,443,746	13,296,414	7,852,668	Note 56
	34,166,746	-	34,166,746	22,960,953	(11,205,793)	
Non-Current Assets						
Investment property	171,000,000	-	171,000,000	218,401,747	47,401,747	Note 56
Property, plant and equipment	1,380,604,047	-	1,380,604,047	899,355,045	(481,249,002)	Note 56
Intangible assets	3,363,000	-	3,363,000	2,632,437	(730,563)	Note 56
Heritage assets	-	-	-	74,581	74,581	Note 56
	1,554,967,047	-	1,554,967,047	1,120,463,810	(434,503,237)	
Total Assets	1,589,133,793	-	1,589,133,793	1,143,424,763	(445,709,030)	
Liabilities						
Current Liabilities						
Other financial liabilities	12,128,354	-	12,128,354	7,451,639	(4,676,715)	Note 56
Finance lease obligation	-	-	-	663,718	663,718	Note 56
Payables from exchange transactions	14,842,929	-	14,842,929	93,875,564	79,032,635	Note 56
Taxes and transfers payable (non-exchange)	-	-	-	45,341,695	45,341,695	Note 56
Consumer deposits	-	-	-	5,727,186	5,727,186	Note 56
Unspent conditional grants and receipts	-	-	-	17,737,594	17,737,594	Note 56
Provisions	-	-	-	1,466,472	1,466,472	Note 56
	26,971,283	-	26,971,283	172,263,868	145,292,585	
Non-Current Liabilities						
Other financial liabilities	34,947,936	-	34,947,936	21,254,036	(13,693,900)	Note 56
Finance lease obligation	-	-	-	2,299,429	2,299,429	Note 56
Employee benefit obligation	-	-	-	43,591,385	43,591,385	Note 56
Provisions	26,865,871	-	26,865,871	2,847,949	(24,017,922)	Note 56
	61,813,807	-	61,813,807	69,992,799	8,178,992	
Total Liabilities	88,785,090	-	88,785,090	242,256,667	153,471,577	
Net Assets	1,500,348,703	-	1,500,348,703	901,168,096	(599,180,607)	

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,500,348,703		- 1,500,348,703	901,168,096	(599,180,607)	Note 56

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property Rates	398,630,332	(166,688,396)	231,941,936	416,150,325	184,208,389	Note 56
Service Charges	190,872,708	58,500,000	249,372,708	228,795,419	(20,577,289)	Note 56
Grants	91,363,763	(34,524,909)	56,838,854	59,541,328	2,702,474	Below 10%
Interest income	529,000	-	529,000	265,942	(263,058)	Note 56
Other receipts	7,630,709	1,053,786	8,684,495	5,658,155	(3,026,340)	Note 56
Public Contributions and Donations	-	-	-	927,801	927,801	Note 56
	689,026,512	(141,659,519)	547,366,993	711,338,970	163,971,977	
Payments						
Suppliers and Employees	(388,820,467)	21,362,915	(367,457,552)	(606,998,917)	(239,541,365)	Note 56
Finance costs	(7,245,812)	(1,000,000)	(8,245,812)	(3,922,833)	4,322,979	Note 56
Remuneration of Councillors	-	-	-	(2,931,554)	(2,931,554)	Note 56
	(396,066,279)	20,362,915	(375,703,364)	(613,853,304)	(238,149,940)	
Net cash flows from operating activities	292,960,233	(121,296,604)	171,663,629	97,485,666	(74,177,963)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(314,694,449)	(226,004,939)	(540,699,388)	(64,512,556)	476,186,832	Note 56
Proceeds from sale of property, plant and equipment	90,000,000	-	90,000,000	553,787	(89,446,213)	Note 56
Purchase of other intangible assets	-	-	-	(177,155)	(177,155)	Note 56
Net cash flows from investing activities	(224,694,449)	(226,004,939)	(450,699,388)	(64,135,924)	386,563,464	
Cash flows from financing activities						
Repayment of Borrowings	(5,439,988)	(1,000,000)	(6,439,988)	(532,300)	5,907,688	Note 56
Proceeds from other Financial Liabilities	550,000	-	550,000	-	(550,000)	Note 56
Finance lease payments	-	-	-	(501,918)	(501,918)	Note 56
Net cash flows from financing activities	(4,889,988)	(1,000,000)	(5,889,988)	(1,034,218)	4,855,770	
Net increase/(decrease) in cash and cash equivalents	63,375,796	(348,301,543)	(284,925,747)	32,315,524	317,241,271	
Cash and cash equivalents at the beginning of the year	(20,043,692)	-	(20,043,692)	(19,019,112)	1,024,580	
Cash and cash equivalents at the end of the year	43,332,104	(348,301,543)	(304,969,439)	13,296,412	318,265,851	
Reconciliation						

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1. Basis of presentation

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Companies Act, 71 of 2008.

1.1 Changes in accounting policy and comparability

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2015 and 30 June 2016 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an Accounting Policy only in the following instances:

- (a) if it is required by a Standard of GRAP; or
- (b) when it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1.2 Critical judgements, estimations and assumptions

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 Revenue recognition

Accounting Policy 9.2 on Revenue from Exchange Transactions and Accounting Policy 9.3 on Revenue from Nonexchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 6.1 on Financial Assets Classification and Accounting Policy 6.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments .

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.2 Critical judgements, estimations and assumptions (continued)

1.2.3 Impairment of financial assets

Accounting Policy 6.4 on Impairment of Financial Assets describes the process followed to determine the value at which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors. The total increase in estimation of the impairment of trade and other receivables from exchange transactions is disclosed in note 4 to the AFS.

1.2.4 Useful lives of property, plant and equipment, intangible assets and investment property

As described in Accounting Policies 2.3 and 3.2 the municipality depreciates its property, plant and equipment and amortises its intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.2.5 Impairment: Write down of property, plant and equipment, investment property, intangible assets, heritage assets and inventories

Accounting Policy 5 on Impairment of assets Accounting Policy 7.2 on Inventory - Subsequent measurement describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to property, plant and equipment impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of non-Cash generating Assets and GRAP 26: Impairment of Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the Net Realisable Value for inventories involves significant judgment by management. During the year the estimated impairments to property, plant and equipment made are disclosed in note 9 to the AFS, whilst no impairments were made to intangible assets or inventory.

1.2.6 Water inventory

The estimation of the water stock in the reservoirs is based on actual dip readings or the measurement of water via electronic level sensors, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir. Furthermore the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end.

1.2.7 Defined Benefit Plan Liabilities

As described in Accounting Policy 11.2, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 20 to the Annual Financial Statements.

Gamagara Local Municipality

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Accounting Policies

1.2 Critical judgements, estimations and assumptions (continued)

1.2.8 Provisions and contingent liabilities

Provision for Rehabilitation of Refuse Landfill Sites

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 6% and discounted to the net present value at 5.4%.

1.2.9 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

1.3 Presentation currency

These annual financial statements are presented in South African Rand, rounded off to the nearest Rand, which is the functional currency of the municipality.

1.4 Going concern assumption

The Annual Financial Statements have been prepared on a going concern basis.

1.5 Offsetting

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.6 Property, plant and equipment

1.6.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Gamagara Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.6.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

1.6.3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Years
Infrastructure		
Electricity	Straight line	3 - 55
Roads and paving	Straight line	3 - 100
Sanitation	Straight line	7 - 55
Sewerage	Straight line	7 - 100
Water	Straight line	5 - 100
Community		
Community facilities	Straight line	5 - 60
Recreational facilities	Straight line	10 - 60
Buildings		
Improvements	Straight line	5 - 100
Other		
Bins and containers	Straight line	5 - 15
Computer equipment	Straight line	3 - 10
Emergency equipment	Straight line	3 - 10
Furniture and fittings	Straight line	3 - 15
Motor vehicles	Straight line	4 - 15

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Accounting Policies

1.6 Property, plant and equipment (continued)

Office equipment	Straight line	3 - 15
Pland and equipment	Straight line	2 - 15
Specialised vehicles	Straight line	10 - 20
Other assets	Straight line	25 - 30

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6.4 Incomplete construction work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.6.5 Finance leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

1.6.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

1.6.7 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

1.6.8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the Statement of Financial Performance when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

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Accounting Policies

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	x years

1.8 Investment property

1.8.1 Initial Recognition

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

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Accounting Policies

1.8 Investment property (continued)

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.8.2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in the Statement of Financial Performance for the period in which it arises.

1.8.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

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Accounting Policies

1.9 Impairment of assets

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

1.9.1 Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cashgenerating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets included in the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

1.9.2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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Accounting Policies

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 Financial instruments

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument.

The municipality does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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Accounting Policies

1.10 Financial instruments (continued)

Financial asset - Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- Financial Asset at fair value
- Financial Asset at fair amortised cost
- Financial Asset at cost

Financial asset at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of financial asset

Short term investment deposit -call
Bank balances and cash
Receivables from exchange transactions
Receivables from non-exchange transactions
Investments in fixed deposits

Classification in terms of GRAP 104

Financial asset measured at amortised cost
Financial asset measured at amortised cost

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

Financial liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

There are three main categories of Financial Liabilities , the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Financial liabilities measured at fair value or
- (ii) Financial liabilities measured at amortised cost
- (iii) Financial liabilities measured at cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position:

Type of financial liabilities

Long term liabilities
Creditors
Bank overdraft
Current portion of long term liabilities

Classification in terms of GRAP 104

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

Gamagara Local Municipality

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Accounting Policies

1.10 Financial instruments (continued)

Initial and subsequent measurement

Financial Assets:

Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial asset at amortised cost.

Financial Liabilities:

Financial liabilities measured at fair value

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities measured at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Prepayments are carried at cost less any accumulated impairment losses.

Impairment of Financial Assets

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Financial assets carried at amortised cost

Accounts receivable from exchange & non-exchange transactions encompasses consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

Gamagara Local Municipality

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Accounting Policies

1.10 Financial instruments (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

Derecognition

Financial assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

1.11 Inventories

Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). The cost is determined using the weighted average cost of commodities.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.11 Inventories (continued)

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, nett of trade discounts and rebates.

Water and purified effluent are valued by using the FIFO method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory

1.12 Revenue

General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Gamagara Local Municipality

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been met:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service charge

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs..

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.13 Revenue from exchange transactions (continued)

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Revenue From Recovery Of Unauthorised, Irregular, Fruitless And Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.15 Provisions

Provisions are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Provision for the rehabilitation of landfill sites

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.15 Provisions (continued)

The Municipality has an obligation to rehabilitate its Landfill Sites in terms of its license stipulations and a provision has been established accordingly. The amount of the provision is recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets.

1.16 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plans

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan.

Post retirement health care benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

Post-Employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

Long-Service Allowance

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.16 Employee benefits (continued)

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Provincially-Administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 50 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Defined Benefit Pension Plans

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

The municipality changed its accounting policy from IAS 19 to GRAP 25 with no effect on the financial information disclosed previously

1.17 Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The Municipality As Lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

Gamagara Local Municipality

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Accounting Policies

1.18 Grants-in-aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

1.19 Value added tax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

1.20 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Changes in accounting policies, estimates and errors

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 42 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 43 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.24 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.25 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.26 Comparative figures

Prior Year Comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2015 to 30 June 2016.

1.27 Contingent assets and contingent liabilities

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic bene

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.28 Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.29 Capital commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

1.30 Site restoration (Landfill site)

The Municipality has an obligation to rehabilitate its Landfill Sites in terms of its license stipulations and a provision has been established accordingly. The net present value of the rehabilitation cost of land-fill sites has been determined as at 30 June 2014 by a technical specialist, D.B. Grobler, (Prof. associated valuer & appraiser). The amount of the provision is recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets.

Major assumptions concerning future events

The cost estimate for construction works to be performed for the closure and rehabilitation of an existing disposal site include the following assumptions made by the technical specialist:

- a) The consolidation of "old" waste in the cell and filling of voids with builders rubble or other waste permissible for disposal at the site.
- b) Dombing the entire site in such a way to prevent the formation of pools due to rain, to ensure free surface runoff of rain water.
- c) Capping the site in accordance with the capping design requirements as stipulated in the Minimum Requirements for Closure for the various classes of disposal sites;
- d) Rehabilitating the site in accordance with the end-use plan e.g. grassing, sport field etc.

Lifespan of the site:

- a) Olifantshoek:

The payment dates of the total closure and rehabilitation are uncertain, but are currently expected to be in 2033 (within the next 19 years).

- b) Dibeng:

The payment dates of the total closure and rehabilitation are uncertain, but are currently expected to be in 2023 (within the next 9 years).

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.31 Consumer deposits

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on Consumer Deposits held. Consumer deposits are held in the municipality's primary bank account and available for immediate release.

Classification in terms of GRAP 104: Financial liability at fair value

Financial Liabilities measured at fair value

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

1.32 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 105: Transfers of functions between entities under common control	April 1, 2015	The impact of the amendment is not material.
• GRAP 106: Transfers of functions between entities not under common control	April 1, 2015	The impact of the amendment is not material.
• GRAP 107: Mergers	April 1, 2015	The impact of the amendment is not material.
• IGRAP 11: Consolidation - Special Purpose entities	April 1, 2015	The impact of the amendment is not material.
• IGRAP 12: Jointly controlled entities - Non-monetary contributions by ventures	April 1, 2015	The impact of the amendment is not material.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 1, 2015	The impact of the amendment is not material.
• GRAP 7 (as revised 2010): Investments in Associates	April 1, 2015	The impact of the amendment is not material.
• GRAP 8 (as revised 2010): Interest in Joint Ventures	April 1, 2015	The impact of the amendment is not material.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related Parties	April 1, 2016	The municipality has only resolved to adopt the disclosure as per GRAP 20. The Municipality has not adopted the whole GRAP 20.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2016	Not yet effective
• GRAP 108: Statutory Receivables	April 1, 2016	Not yet effective
• IGRAP 17: Service Concessions Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2016	Not yet effective

Gamagara Local Municipality

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3. Inventories

Pothole mix	32,999	13,950
Fuel (Diesel, Petrol)	759,894	771,213
Water	412,123	200,388
Total Inventories	1,205,016	985,551

The cost of water production for the year amounted to R 11.20 per kilolitre (2015: R 10.33 per kilolitre). Raw water purchased from Kumba Iron Ore amounts to 6c per kilolitre.

The cost of fuel and consumables recognised as an expense during the year amounted to R 3 163 535.46 (2015: R 2 802 353).

No Inventories have been pledged as collateral for Liabilities of the municipality.

4. Receivables from Exchange Transactions

Gross balances

Electricity	46,929,540	35,747,541
Water	59,167,853	45,284,617
Sewerage	14,939,244	8,936,175
Refuse	22,673,807	16,919,346
Other	2,076,124	1,726,139
	145,786,568	108,613,818

Less: Allowance for impairment

Electricity	(46,458,983)	(32,747,952)
Water	(58,574,583)	(41,591,784)
Sewerage	(14,789,450)	(8,207,016)
Refuse	(22,446,459)	(15,539,652)
Other	(2,055,307)	(1,585,466)
	(144,324,782)	(99,671,870)

Net balance

Electricity	470,557	2,999,589
Water	593,269	3,692,834
Sewerage	149,794	729,158
Refuse	227,347	1,379,694
Other	20,817	140,674
	1,461,784	8,941,949

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables as per the municipality's credit control policy.

Receivables from Exchange Transactions have been restated to account for corrections of prior year balances. Refer to Note 57 on "Correction of Error" for details of the restatement.

At 30 June 2016, the municipality is owed R4 271 571 (30 June 2015: R5 101 823) by National and Provincial Government.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Receivables as well as the current payment ratios of the municipality's Receivables.

4.1 Ageing of Receivables from Exchange Transactions (Net Balances)

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4. Receivables from Exchange Transactions (continued)

Electricity

Current (0 -30 days)	470,557	2,999,589
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Water

Current (0 -30 days)	593,269	3,692,834
----------------------	---------	-----------

Sewerage

Current (0 -30 days)	149,794	729,158
----------------------	---------	---------

Refuse

Current (0 -30 days)	227,347	1,379,694
----------------------	---------	-----------

Other (specify)

Current (0 -30 days)	20,817	44,492
31 - 60 days	-	27,333
61 - 90 days	-	16,575
> 90 days	-	52,274
	20,817	140,674

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4. Receivables from Exchange Transactions (continued)

4.2 Summary of debtors by customer classification

Consumers

Current (0 -30 days)	11,750,655	13,366,582
31 - 60 days	9,711,195	7,346,627
61 - 90 days	7,873,266	10,155,598
> 90 days	99,199,838	62,410,644
	<hr/>	<hr/>
Less: Allowance for impairment	128,534,954	93,279,451
	<hr/>	<hr/>
	(128,534,954)	(91,994,179)
		<hr/>
	-	1,285,272

Industrial/ commercial

Current (0 -30 days)	3,228,322	2,687,586
31 - 60 days	2,069,085	2,046,443
61 - 90 days	2,851,595	2,389,258
> 90 days	4,831,041	3,109,258
	<hr/>	<hr/>
Less: Allowance for impairment	12,980,043	10,232,545
	<hr/>	<hr/>
	(12,980,043)	(7,677,692)
		<hr/>
	-	2,554,853

National and provincial government

Current (0 -30 days)	498,285	739,536
31 - 60 days	341,490	459,660
61 - 90 days	305,817	442,800
> 90 days	316,193	3,459,827
	<hr/>	<hr/>
	1,461,785	5,101,823

Total

Current (0 -30 days)	15,477,262	16,793,704
31 - 60 days	12,121,770	9,852,730
61 - 90 days	11,030,677	12,987,655
> 90 days	107,156,858	68,979,729
	<hr/>	<hr/>
Less: Allowance for impairment	145,786,567	108,613,818
	<hr/>	<hr/>
	(144,324,782)	(99,671,870)
	<hr/>	<hr/>
	1,461,785	8,941,948

Less: Allowance for impairment

Current (0 -30 days)	(120,758)	(106,464)
31 - 60 days	(190,567)	(107,811)
61 - 90 days	(289,883)	(192,708)
> 90 days	(143,723,574)	(99,264,886)
	<hr/>	<hr/>
	(144,324,782)	(99,671,869)

4.3 Reconciliation of the Provision for Impairment

Gamagara Local Municipality

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Figures in Rand	2016	2015
4. Receivables from Exchange Transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	99,671,869	24,609,226
Impairment Losses Recognised	44,652,912	79,423,257
Amounts written off as uncollectable	-	(4,360,614)
	144,324,781	99,671,869

Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over the past 12 months per service type. Impairment provision is the amortised cost of the debtor. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

4.4 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

5. Receivables from non-exchange transactions

Assessment Rates Debtors - Gross	707,045,989	348,054,231
Assessment Rates Debtors - Provision for impairment	(705,789,341)	(346,797,002)
Sundry Deposits	137,577	491,196
Suspense Accounts	2,664,017	3,616,710
	4,058,242	5,365,135

Receivables from Non-exchange Transactions have been restated to account for corrections of prior year balances. Refer to Note 57 on "Correction of Error" for details of the restatement.

The new valuation roll was implemented with effect from 1 July 2014. The valuation of particularly mining properties increased significantly due to the sale of mining land, which raised the benchmark pricing of all properties. As a result of this adjustment the rates billed increased and causes the outstanding receivables to be at a high level.

Sundry Deposits are in respect of cash deposits made to Eskom for the supply of electricity.

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

5.1 Ageing of Receivables from Non-exchange Transactions

Assessment Rates Debtors - Gross

Current (0 -30 days)	18,961,024	16,616,543
31 - 60 days	16,779,263	15,895,364
61 - 90 days	15,996,845	15,375,222
> 90 days	655,308,857	300,167,102
	707,045,989	348,054,231

Assessment Rates Debtors - Provision for impairment

Current (0 -30 days)	(17,704,376)	(15,359,314)
31 - 60 days	(16,779,263)	(15,895,364)
61 - 90 days	(15,996,845)	(15,375,222)
> 90 days	(655,308,857)	(300,167,102)
	(705,789,341)	(346,797,002)

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Figures in Rand	2016	2015
Sundry Deposits		
Current (0 -30 days)	137,577	491,196
Suspense Accounts		
Current (0 -30 days)	2,664,017	3,616,710
5.2 Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	2,959,516	2,759,194
31 - 60 days	2,125,336	1,940,632
61 - 90 days	1,379,119	1,460,763
> 90 days	19,559,864	12,947,708
Less: Allowance for impairment	26,023,835 (26,006,629)	19,108,297 (19,075,768)
	17,206	32,529
Industrial/ commercial		
Current (0 -30 days)	15,962,666	14,387,045
31 - 60 days	14,615,084	13,921,016
61 - 90 days	1,457,213	13,881,142
> 90 days	648,197,488	286,090,887
Less: Allowance for impairment	680,232,451 (679,782,712)	328,280,090 (327,721,234)
	449,739	558,856
National and provincial government		
Current (0 -30 days)	38,842	36,374
31 - 60 days	38,843	33,716
61 - 90 days	38,513	33,317
> 90 days	673,505	562,436
	789,703	665,843
Total		
Current (0 -30 days)	18,961,024	17,182,613
31 - 60 days	16,779,263	15,895,364
61 - 90 days	15,996,845	16,568,917
> 90 days	655,308,857	298,407,336
Suspense Accounts	2,801,594	4,107,907
Less: Allowance for impairment	709,847,583 (705,789,341)	352,162,137 (346,797,002)
	4,058,242	5,365,135

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	346,797,002	8,813,904
Provision for impairment	358,992,339	338,047,297
Amounts written off as uncollectible	-	(64,199)
	705,789,341	346,797,002

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

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In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

Furthermore, no Provision for Impairment was calculated on Receivables other than Assessment Rates Debtors as the management is of the opinion that all Receivables are recoverable within normal credit terms.

6. VAT receivable

VAT	2,844,249	2,206,464
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Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

7. Cash and cash equivalents

Cash and Cash Equivalents	1,800	1,800
Bank balances	13,069,001	-
Current Investments	225,613	8,218,788
Bank overdraft	-	(27,239,699)
	13,296,414	(19,019,111)

Current assets	13,296,414	8,220,588
Current liabilities	-	(27,239,699)
	13,296,414	(19,019,111)

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

7.1 Current Investment Deposits

Short-term deposits	225,613	8,218,788
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Call Deposits are investments with a maturity period of less than 3 months and earn interest at rates varying from 1% to 3.9% per annum.

Deposits of R 0 (2015: R 1 995 895) are ring-fenced and attributable to Unspent Conditional Grants.

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7. Consumer debtors disclosure (continued)

7.2 Bank Accounts

Bank overdraft	-	(27,239,699)
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The Municipality has the following bank account:

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	June 30, 2014
FIRST NATIONAL BANK -	12,888,854	6,177,266	7,401,891	13,069,001	(27,239,699)	(30,159,496)
Account Number - 53668 006 069						

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

7.3 Cash and Cash Equivalents

Cash Floats and Advances	1,800	1,800
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The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

8. Operating Lease Receivables

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Balance at beginning of year	108,280	116,954
Operating Lease Revenue recorded	239,336	267,588
Operating Lease Revenue effected	(252,369)	(276,262)
	95,247	108,280

8.1 Leasing Arrangements

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 1 to 11 (2015: 1 to 15) years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. Additional text

8.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

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Up to 1 year	118,979	252,369
2 to 5 years	418,530	453,123
More than 5 years	209,785	294,171
	747,294	999,663

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been an decrease of R 13 032 (2015: decrease of R 8 674) in current year income.

The following restrictions have been imposed by the municipality in terms of the lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

8.3 Contingent Rentals

Properties have been leased to external parties during the year under review on a month to month basis or for indefinite periods. These rentals are classified as contingent rentals due to uncertain lease periods and uncertain tariff increases. The operating lease payments are therefore not subject to straight-lining. Due to the uncertainties above, it is impracticable to disclose the future minimum lease payments expected to be received for each of the following periods as required by GRAP 13.

9. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	51,728,220	-	51,728,220	51,728,220	-	51,728,220
Buildings	80,353,662	(30,495,554)	49,858,108	80,353,662	(26,370,707)	53,982,955
Leasehold property	3,086,098	(289,757)	2,796,341	-	-	-
Infrastructure	1,324,473,862	(733,114,766)	591,359,096	1,318,852,611	(689,894,318)	628,958,293
Community	118,683,862	(58,636,597)	60,047,265	118,683,862	(52,478,347)	66,205,515
Other property, plant and equipment	39,963,890	(15,528,128)	24,435,762	38,652,053	(10,559,997)	28,092,056
Capital assets under construction	119,130,253	-	119,130,253	61,550,786	-	61,550,786
Total	1,737,419,847	(838,064,802)	899,355,045	1,669,821,194	(779,303,369)	890,517,825

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	51,728,220	-	-	-	-	51,728,220
Buildings	53,982,955	-	-	-	(4,124,847)	49,858,108
Leasehold property	-	3,086,098	-	-	(289,757)	2,796,341
Infrastructure	628,958,293	-	-	5,621,252	(43,220,449)	591,359,096
Community	66,205,515	-	-	-	(6,158,251)	60,047,264
Other property, plant and equipment	28,092,056	1,311,837	(710,356)	-	(4,257,776)	24,435,761
Capital assets under construction	61,550,786	63,200,719	-	(5,621,252)	-	119,130,253
	890,517,825	67,598,654	(710,356)	-	(58,051,080)	899,355,043

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Depreciation	Total
Land	51,728,220	-	-	-	51,728,220
Buildings	58,107,802	-	-	(4,124,847)	53,982,955
Infrastructure	592,020,609	95,203	81,228,137	(44,385,656)	628,958,293
Community	72,615,919	12,300	-	(6,422,704)	66,205,515
Other property, plant and equipment	15,270,984	15,651,348	-	(2,830,276)	28,092,056
Capital assets under construction	93,443,834	49,335,089	(81,228,137)	-	61,550,786
	883,187,368	65,093,940	-	(57,763,483)	890,517,825

The opening balance of Property, Plant and Equipment has been restated. Refer to Note 57 on "Correction of Error" for details of the restatement.

Also refer to Appendices "B" for more detail on Property, Plant and Equipment.

9.1 Pledged as security

The municipality did not pledge any of its assets as security.

9.2 Impairment of Property, Plant and Equipment

Other information

Property, plant and equipment fully depreciated and still in use (Number of Assets)

Land and Buildings	6	-
Other Assets	94	-
Infrastructure	57	-
	157	-

9.3 Land and Buildings carried at Fair Value

The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

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9. Property, plant and equipment (continued)

9.4 Calculation of Cash Flow:

Acquisitions	(1,311,837)	(15,758,851)
Capital under construction - Additions	(63,200,719)	(49,335,089)
Total Additions	(64,512,556)	(65,093,940)

10. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4,916,073	(2,283,636)	2,632,437	4,738,918	(1,374,876)	3,364,042

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	3,364,042	177,155	(908,760)	2,632,437

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,133,385	2,884,596	(653,939)	3,364,042

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 34).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

There are no contractual obligations on Intangible Assets.

Refer to Appendix "B" for more detail on Intangible Assets.

10.1 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

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11. Investment property

	2016		2015			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	218,401,747	-	218,401,747	194,309,757	-	194,309,757

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
	194,309,757	24,091,990	218,401,747
Investment property			

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
	173,153,766	21,155,991	194,309,757
Investment property			

The opening balance of Investment Property has been restated with regards to corrections made to the Asset Register that was implemented as at 30 June 2013. Refer to Note 57 on "Correction of Error" for details of the restatement.

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

11.1 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

12. Heritage assets

	2016		2015			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage Assets	74,581	-	74,581	74,581	-	74,581

Reconciliation of heritage assets 2016

	Opening balance	Total
	74,581	74,581
Heritage assets		

Reconciliation of heritage assets 2015

	Opening balance	Total

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12. Heritage assets (continued)		
Heritage assets	74,581	74,581
13. Consumer deposits		
Electricity and Water	5,727,186	5,709,474
Guarantees held in lieu of Electricity and Water Deposits	20,000	20,000

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

14. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for Rehabilitation of Land-fill Sites	2,601,817	246,132	2,847,949
Long-term Service Liability	637,391	52,453	689,844
Post-retirement Medical Aid Benefits Liability	691,656	84,972	776,628
	3,930,864	383,557	4,314,421

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Provision for Rehabilitation of Land-fill Sites	2,376,957	224,860	2,601,817
Long-term Service Liability	432,495	204,896	637,391
Post-retirement Medical Aid Benefits Liability	645,972	45,684	691,656
	3,455,424	475,440	3,930,864
Non-current liabilities		2,847,949	2,601,817
Current liabilities		1,466,472	1,329,047
		4,314,421	3,930,864

Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse site, the municipality will incur rehabilitation costs of R 2 882 967.77 (Debeng landfill site) and R 4 976 782.17 (Olifantshoek landfill site) to restore the sites at the end of their useful lives. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

15. Payables from exchange transactions

Trade Creditors	93,875,564	1,086,573
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Payables from Exchange Transactions have been restated to account for expenses not accrued for previously. Refer to Note 57 on "Correction of Error" for details of the restatement.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

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15. Payables from exchange transactions (continued)

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality did not default on any payment of its Creditors. No terms for payment have been renegotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

16. Taxes and transfers payable (non-exchange)

Payments Received In Advance	24,997,305	16,521,927
Staff Leave	6,877,308	6,174,247
Sundry Deposits	2,346,986	2,298,670
Unallocated Deposits	11,120,095	9,338,294
	45,341,694	34,333,138

Payables from Non-exchange Transactions have been restated to account for expenses not accrued for previously and correct other errors. Refer to Note 57 on "Correction of Error" for details of the restatement.

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The municipality did not default on the payment of its Creditors. No terms for payment have been renegotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

17. Other financial liabilities

At amortised cost

Annuity Loans - Non-current	(21,254,036)	(25,435,357)
Annuity Loans - Current	(7,451,639)	(3,802,619)
	(28,705,675)	(29,237,976)

Total other financial liabilities

(28,705,675) (29,237,976)

Non-current liabilities

At amortised cost	21,254,036	25,435,357
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Current liabilities

At amortised cost	7,451,639	3,802,618
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Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

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17. Other financial liabilities (continued)

17.1

Calculation of Cash Flow:

Opening Balance of Long-term Liabilities	(25,435,357)	(29,237,975)
Closing Balance of Long-term Liabilities	21,254,036	25,435,357
Opening Balance of current portion of Long-term Liabilities	(3,802,618)	(4,422,608)
Closing Balance of current portion of Long-term Liabilities	7,451,639	3,802,618
	(532,300)	(4,422,608)

Annuity Loans are repaid over periods varying from 1 to 7 (2015: 1 to 7) years and at interest rates varying from 8.63% to 11.06% (2014: 8.63% to 11.06%) per annum. Annuity Loans are not secured.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

17.2 Breach of Loan Agreement

No terms for payment have been re-negotiated by the municipality.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

National: MIG Funds	-	1,532,206
Integrated National Electrification Programme Grant (INEG)	17,737,594	-
	17,737,594	1,532,206

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 26 for the reconciliation of Grants from Government and Note 27 for the reconciliation of Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

Gamagara Local Municipality

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19. Finance lease obligation		
Minimum lease payments due		
- within one year	2,007,672	-
- in second to fifth year inclusive	3,513,426	-
	<hr/>	
less: future finance charges	5,521,098	-
	(2,557,951)	-
	<hr/>	
Present value of minimum lease payments	2,963,147	-
Present value of minimum lease payments due		
- within one year	663,718	-
- in second to fifth year inclusive	2,299,429	-
	<hr/>	
Non-current liabilities	2,963,147	-
Current liabilities	2,299,429	-
	(663,718)	-
	<hr/>	
	2,963,147	-

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the effective borrowing rate ranges from 28.44% to 79.68%.

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9

20. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Post-Retirement Health Care Benefits Liability	(38,198,605)	(32,016,207)
Long Service Awards Liability	(5,392,780)	(5,290,985)
	<hr/>	
	(43,591,385)	(37,307,192)

20.1 Post-retirement Health Care Benefits Liability

Balance at beginning of Year	32,707,863	29,711,748
Current service costs	1,912,223	1,745,269
Increase due to Discounting	2,928,070	2,697,249
Actuarial gains & losses & benefits paid	1,427,077	(1,446,403)
	<hr/>	
Balance at end of Year	38,975,233	32,707,863
Current portion	(776,628)	(691,656)
	<hr/>	
Total Post-retirement Health Care Benefits Liability	38,198,605	32,016,207

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

Gamagara Local Municipality

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20. Employee benefit obligations (continued)

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Mr C Weiss. He is an approved pension fund valuator and a member of the Actuarial Society of South Africa (ASSA). He is also a Fellow of the Faculty of Actuaries in the UK. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	280	235
Continuation Members (Retirees, widowers and orphans)	18	16
Total Members	298	251

The liability in respect of past service has been estimated as follows:

In-service Members	27,242,092	23,085,821
Continuation Members	11,733,141	9,622,042
Total Liability	38,975,233	32,707,863

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed

The Current-service Cost for the year ending 30 June 2016 is estimated to be R 1,912,223, whereas the cost for the ensuing year is estimated to be R 2,420,370 (30 June 2015 and 30 June 2016: R 1,745,269 and R1,912,223 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	9.15 %	9.05 %
Health Care Cost Inflation Rate	8.23 %	8.14 %
Net Effective Discount Rate	0.85 %	0.84 %
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63
Mortality tables	SA 85-90	SA 85-90
Mortality tables post-retirement	PA(90)-1	PA (90)-1

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	32,707,863	29,711,748
Current service cost	1,912,223	1,745,269
Interest cost	2,928,070	2,697,249
Benefits paid	(691,656)	(645,972)
Actuarial losses / (gains)	2,118,733	(800,431)
Total Recognised Benefit Liability	38,975,233	32,707,863

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	38,975,233	32,707,150
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Gamagara Local Municipality

Annual Financial Statements for the year ended June 30, 2016

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20. Employee benefit obligations (continued)

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	1,912,223	1,745,269
Interest cost	2,928,070	2,697,249
Actuarial losses / (gains)	2,118,733	(800,431)
Less: Benefits paid	(691,656)	(645,972)
Total Post-retirement Benefit included in Employee Related Costs	6,267,370	2,996,115

The history of experienced adjustments is as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Present Value of Defined Benefit Obligation	38,975	32,708	29,712	22,292	18,058
Surplus (deficit)	(38,975)	(32,708)	(29,712)	(22,292)	(18,058)

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	5,874,700	5,401,800
Effect on the defined benefit obligation	46,514,000	38,812,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	4,032,600	3,693,900
Effect on the defined benefit obligation	32,993,000	27,848,000

Refer to Note 51, "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

Gamagara Local Municipality

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20. Employee benefit obligations (continued)

20.2 Long Service Awards Liability

Balance at beginning of Year	5,928,376	4,407,950
Contribution to provion	642,004	450,920
Increase due to discounting	450,833	334,849
Current service cost & benefits paid	(938,589)	734,657
Balance at end of Year	6,082,624	5,928,376
Current portion	(689,844)	(637,391)
Total Long Service Awards Liability	5,392,780	5,290,985

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Longservice Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Mr C. Weiss. He is an approved pension fund valuator and a member of the Actuarial Society of South Africa (ASSA). He is also a Fellow of the Faculty of Actuaries in the UK. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 358 (2015: 358) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2016 is estimated to be R 642,004, whereas the cost for the ensuing year is estimated to be R 661,183 (30 June 2015 and 30 June 2016: R 450,920 and R 642,004 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	8.56 %	8.03 %
General Salary Inflation	7.21 %	7.10 %
Net Effective Discount Rate	1.25 %	0.87 %
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63
Mortality tables during employment	SA 85-90	SA 85-90

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	5,928,377	4,407,950
Current service costs	642,004	450,920
Interest cost	450,833	334,849
Benefits paid	(637,391)	(432,495)
Actuarial losses / (gains)	(301,198)	1,167,153
Total Recognised Benefit Liability	6,082,625	5,928,377

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	6,082,625	5,928,377
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The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	642,004	450,920
Interest cost	450,833	334,849
Actuarial losses / (gains)	(301,198)	1,167,153
Less: Benefits paid	(637,391)	(432,495)
Total Post-retirement Benefit included in Employee Related Costs	154,248	1,520,427

Gamagara Local Municipality

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20. Employee benefit obligations (continued)

The history of experienced adjustments is as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Present Value of Defined Benefit Obligation	6,082,625	5,928,377	4,407,950	4,112,324	3,530,447
Surplus (deficit)	(6,082,625)	(5,928,377)	(4,407,950)	(4,112,324)	(3,530,447)

The effect of a 1% movement in the assumed rate of general salary inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	1,181,600	851,200
Effect on the defined benefit obligation	6,485,000	6,329,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	1,013,500	727,600
Effect on the defined benefit obligation	5,720,000	5,568,000

Refer to Note 51, "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

21. Accumulated surplus

The Accumulated Surplus consists of the following Internal Funds and

Reserves:

Accumulated Surplus / (Deficit) due to the results of Operations	901,168,095	973,717,048
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Accumulated Surplus has been restated. Refer to Notes 57 on "Correction of Errors" for details of the restatements.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

Gamagara Local Municipality

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22. Property rates

Rates received

Property Rates Income	420,294,128	395,488,837
Less: Income forgone	(4,710,454)	(4,552,975)
	415,583,674	390,935,862

Valuations

Residential Properties	4,256,935,564	4,256,935,564
Industrial Properties	4,470,000	4,470,000
Business Properties	327,622,000	327,622,000
Agriculture Properties	1,313,652,010	1,313,652,010
Municipal Farms	68,288,020	68,288,020
State owned Properties	56,403,000	56,403,000
Municipal Properties	279,885,900	279,885,900
Public Service Infrastructure	6,611,000	6,611,000
Churches	36,203,000	36,203,000
Education	40,950,000	40,950,000
Mining Properties	20,520,025,000	20,520,025,000
Guest House	42,110,000	42,110,000
Farms Face In	120,907,000	120,907,000
Small Holdings	83,100,000	83,100,000
Government Hospitals	6,700,000	6,700,000
Private Hospitals	7,000,000	7,000,000
Existing Farms - Without Dwellings	138,565,000	138,565,000
Farms Face In - Without Dwellings	187,158,000	187,158,000
Small Holdings - Without Dwellings	1,900,000	1,900,000
	27,498,485,494	27,498,485,494

Calculation of Cash Flow:

Property rates income	415,583,674	390,935,862
Opening balance of Debtors: Assessment Rates	348,620,301	12,625,425
Closing balance of Debtors: Assessment Rates	(707,045,989)	(348,620,301)
Opening balance - Provision for doubtful debts	(346,797,002)	(8,813,904)
Closing balance - Provision for doubtful debts	705,789,341	346,797,002
Total Receipts for Property Rates	416,150,325	392,924,084

Property rates have been restated to account for corrections of prior year balances. Refer to Note 57 on "Correction of Error" for details of the restatement.

Assessment Rates are levied on the value of land and improvements, which valuation is performed every 4 years. The last valuation came into effect on 01 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions and also to accommodate growth in the rate base due mostly to private development.

A rate in the rand for domestic properties of R 0.008999 was charged on site values and improvements. Business were charged at a rate in the rand of R 0.017998 on site values and improvements.

Properties used for domestic purposes and consisting of both land and improvements are subject to a R 15 000.00 valuation reduction. There are also different rebates and phased in tariffs for different sectors of the community.

Rates are levied monthly on property owners and are payable the end of each month.

Gamagara Local Municipality

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23. Fines		
General	680,380	152,807
Traffic	2,809	209,841
Total fines	683,189	362,648
24. Licences and permits		
Drivers licences	534,006	829,808
Other general	4,306	342
Total Licences and Permits	538,312	830,150
25. Income from agency services		
Motor licences	2,597,835	2,473,165
Total Income from Agency Services	2,597,835	2,473,165
26. Government grants and subsidies		
Operating grants		
Equitable share	22,923,206	22,045,000
National: Finance Management Grant (FMG)	1,600,000	1,600,000
National: Municipal Systems Improvement Grant (MSIG)	930,000	934,000
Provincial: Library	1,538,000	1,334,170
	26,991,206	25,913,170
Capital grants		
National: Municipal Infrastructure Grant (MIG)	9,864,000	10,105,794
National: Department of Minerals & Energy (INEP)	2,262,406	3,500,000
Provincial: Department of Public Works: Epwp Program	1,000,000	1,000,000
Provincial: COGHSTA	3,218,329	6,967,845
Provincial: Department of Water Affairs & Forestry	-	872,959
	16,344,735	22,446,598
Total Government Grants and Subsidies	43,335,941	48,359,768
Calculation of Cash Flow:		
Included in above are the following grants and subsidies received:		
Government Grants and Subsidies Income	43,335,940	48,359,768
Opening Balance of Unspent Government Grants	(1,532,206)	(1,217,129)
Closing Balance of Unspent Government Grants	17,737,594	1,532,206
Total Receipts for Government Grants and Subsidies	59,541,328	48,674,845
Equitable Share		
Equitable share	22,923,206	22,045,000

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R 328.48 (2015: R381.52), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council.

Gamagara Local Municipality

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26. Government grants and subsidies (continued)

National: Finance Management Grant (FMG)

Current-year receipts	1,600,000	1,600,000
Conditions met - transferred to Revenue: Operating Expenses	(1,600,000)	(1,600,000)
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

National: MIG Funds

Balance unspent at beginning of year	1,532,206	-
Current-year receipts	9,864,000	11,638,000
Conditions met - transferred to Revenue: Operating Expenses	(9,864,000)	(10,105,794)
Surrendered to COGTA	(1,532,206)	-
Conditions still to be met - transferred to Liabilities	-	1,532,206

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld.

National: Municipal Systems Improvement Grant (MSIG)

Current-year receipts	930,000	934,000
Conditions met - transferred to Revenue: Operating Expenses	(930,000)	(934,000)
Conditions still to be met - transferred to Liabilities	-	-

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

National: Department of Minerals & Energy (INEP)

Current-year receipts	20,000,000	3,500,000
Conditions met - transferred to Revenue: Operating Expenses	(2,262,406)	(3,500,000)
Conditions still to be met - transferred to Liabilities	17,737,594	-

The grant was allocated for the upgrading of poor households, micro enterprises and social institutions to provide for new, rehabilitation and upgrading of municipal infrastructure.

Provincial: Expanded Public Works Program

Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to Revenue: Operating Expenses	(1,000,000)	(1,000,000)
Conditions still to be met - transferred to Liabilities	-	-

This grant was allocated to the municipality for the upgrading of roads within the municipal area. No funds have been withheld.

Gamagara Local Municipality

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Notes to the Annual Financial Statements

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26. Government grants and subsidies (continued)

Provincial: Library

Balance unspent at beginning of year	-	344,170
Current-year receipts	1,538,000	990,000
Conditions met - transferred to Revenue: Operating Expenses	(1,538,000)	(1,334,170)
	-	-

Conditions still to be met - remain liabilities (see note 18).

This grant was allocated to the municipality for community projects. No funds have been withheld.

Provincial: COGHSTA

Current-year receipts	3,218,329	6,967,845
Conditions met - transferred to Revenue: Capital Expenses	(3,218,329)	(6,967,845)
	-	-

The grant was allocated to the municipality for the construction of RDP houses in Sesheng (490 houses) and Olifantshoek (200 houses) as well as 200 rental units in Kathu.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2014), government grant funding is expected to increase over the forthcoming three financial years.

27. Public contributions and donations

Public contributions and donations	-	1,085,600
Kumba Iron Ore	927,801	5,322,637
Total Public Contributions and Donations	927,801	6,408,237

Calculation of Cash Flow:

Public contributions and donations	927,801	6,408,237
Opening Balance of Unspent Public Grants	-	-
Closing Balance of Unspent Public Grants	-	-
Total Receipts for Public Contributions and Donations	927,801	6,408,237

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28. Service charges

Sale of electricity	123,347,186	121,717,451
Sale of water	50,086,129	61,703,861
Sewerage and sanitation charges	17,568,345	16,899,793
Refuse removal	18,299,939	15,834,223
Other service charges	12,013,657	50,438,213
Total Service Charges	221,315,256	266,593,541

Service charges have been restated to account for corrections of prior year balances. Refer to Note 57 on "Correction of Error" for details of the restatement.

Calculation of Cash Flow:

Service charges	221,315,256	266,593,541
Opening Balance of Debtors: Service Charges	108,613,817	46,587,164
Closing Balance of Debtors: Service Charges	(145,786,567)	(108,613,817)
Opening balance - Provision for doubtful debts	(99,671,869)	(24,609,226)
Closing balance - Provision for doubtful debts	144,324,782	99,671,869
Total Receipts for Service Charges	228,795,419	279,629,531

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

29. Rental of facilities and equipment

Rental revenue from land	303,519	136,093
Rental revenue from other facilities	45,632	117,558
Total Rental of Facilities and Equipment	349,151	253,651

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

30. Interest earned

External Investments:

Bank account & Call investment deposits	255,421	806,380
Interest - Other	10,521	313,817
Total Interest Earned	265,942	1,120,197

Calculation of Cash Flow:

External Interest Income	265,942	1,120,196
Opening Balance of Accrued Interest	-	-
Closing Balance of Accrued Interest	-	-
Total Receipts for Interest Received	265,942	1,120,196

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Financial Assets at Amortised Cost	265,942	1,120,196
	265,942	1,120,196

Gamagara Local Municipality

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31. Other income

Cemetery fees	20,478	27,373
Collection charges	77,074	61,314
Connection fees	303,239	651,812
Insurance claim	-	46,563
Photocopies	4,950	16,798
Refuse removal fees	9,714	1,808
Sundry revenue	452,956	457,753
Tender documents	81,000	163,194
Valuation roll fee	24,243	56,523
Various sales	516,013	316,996
Total Other Revenue	1,489,667	1,800,134

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 21 to 29, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

Insurance Claim have been restated to account for corrections of prior year balances. Refer to Note 57 on "Correction of Error" for details of the restatement.

Gamagara Local Municipality

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Figures in Rand	2016	2015
32. Employee related costs		
Basic	75,087,881	71,779,143
Contributions for UIF, Pensions and Medical Aids	18,020,869	15,150,485
Bonus provision	-	-
Defined contribution plans	6,421,618	4,516,541
Travel, motor car, accommodation, subsistence and other allowances	2,967,496	2,697,344
Overtime payments	10,179,081	8,316,626
Housing benefits and allowances	1,302,419	1,126,211
FMG Interns	1,600,000	1,600,000
Total Employee Related Costs	115,579,364	105,186,350

Calculation of Cash Flow:

Employee costs - salaried staff	(115,579,365)	(105,186,350)
Opening balance of Employee benefit obligation - Non current	(37,307,192)	(33,041,231)
Closing balance of Employee benefit obligation - Non current	43,591,385	37,307,192
Opening balance of Employee benefit obligation - Current	(1,212,769)	(1,586,066)
Closing balance of Employee benefit obligation - Current	1,466,472	1,212,769
Opening balance of Provision for staff leave	(6,174,247)	(4,547,806)
Closing balance of Provision for staff leave	6,877,308	6,174,247
Total Outflow	(108,338,408)	(99,667,245)

No advances were made to employees.

Remuneration of Municipal Manager

Annual Remuneration	814,630	875,968
Car and Other Allowances	614,704	314,341
Performance Bonuses	98,312	96,741
Total	1,527,646	1,287,050

Remuneration of Chief Financial Officer

Annual Remuneration	673,831	676,669
Car and Other Allowances	459,333	433,874
Performance Bonuses	73,631	78,988
Total	1,206,795	1,189,531

Remuneration of the Director: Community Services - RC Apools

Annual Remuneration	557,380	602,544
Car and Other Allowances	388,618	308,765
Performance Bonuses	58,033	70,212
Total	1,004,031	981,521

Remuneration of the Director: Corporate Services - L Seetile

Annual Remuneration	557,380	702,544
Car and Other Allowances	388,618	206,106
Performance Bonuses	58,033	70,212
Total	1,004,031	978,862

Remuneration of the Director: Infrastructure - KN Ositang

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32. Employee related costs (continued)		
Annual Remuneration	557,380	602,544
Car and Other Allowances	388,618	207,909
Performance Bonuses	58,033	-
Total	1,004,031	810,453
Remuneration of the Director: Strategic Services KJ Leserwane		
Annual Remuneration	557,380	702,544
Car and Other Allowances	388,618	181,552
Performance Bonuses	58,033	70,212
Total	1,004,031	954,308
33. Remuneration of councillors		
Councillors	1,836,163	1,787,810
Company Contributions to UIF, Medical and Pension Funds	363,389	323,864
Other Allowances (Cellular Phones, Housing, Transport, etc.)	732,002	681,618
Total Councillors' Remuneration	2,931,554	2,793,292
In-kind benefits		
The Councillor occupying the position of the Mayor of the municipality serve in a full-time capacity. She is provided with office accommodation and secretarial support at the expense of the municipality in order to enable her to perform her official duties.		
The Mayor has use of a Council owned vehicle for official duties.		
34. Depreciation and amortisation		
Property, plant and equipment	58,051,078	57,763,481
Intangible assets	908,760	653,939
Total Depreciation and Amortisation	58,959,838	58,417,420
35. Impairment of assets		
Impairments		
Trade and other receivables	403,645,252	417,470,554
36. Repairs and maintenance		
Land and Buildings	302,751	57,685
Infrastructure - Electricity	4,786,340	2,533,752
Infrastructure - Road Transport	986,858	1,062,162
Infrastructure - Other	1,982,424	8,121,421
Other Assets	5,475,176	3,717,496
Total Repairs and Maintenance	13,533,549	15,492,516
37. Finance costs		
Long-term liabilities	2,731,875	3,135,755
Creditors overdue	565,859	178
Finance leases	378,967	-
Landfill provision	246,132	224,860
Total Interest Paid on External Borrowings	3,922,833	3,360,793

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38. Bulk purchases		
Electricity	93,426,753	84,403,979
Water	16,471,864	12,486,985
Total Bulk Purchases	109,898,617	96,890,964

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from Sedibeng Water.

39. Contracted services

Commission paid	3,064,800	2,288,108
Project related expenses	7,186,461	7,304,723
Licences & permits	403,765	260,313
Rentals paid	737,451	1,394,158
Security services	2,687,166	2,395,902
Total Contracted Services	14,079,643	13,643,204

40. Grants and subsidies paid

Other subsidies		
Low Income Subsidy / Free Basic Services (Equitable share)	2,343,317	2,402,570

Free Basic Services are in respect of assistance to and providing basic service levels to indigent households.

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41. General expenses		
Included in General Expenses are the following:		
Advertising	354,816	194,302
Auditors remuneration	2,968,744	2,471,833
Bank charges	859,988	805,535
Books, Magazines & Publication	18,699	6,030
Call Centre	3,256,649	42,350
Cleaning Materials	594,179	107,810
Cleaning	67,200	69,499
Conferences and seminars	28,972	99,990
Consultant Fees	25,736,934	5,579,053
Elec Pre-Paid Meter Issue	-	226,691
Entertainment	132,043	124,624
Fuel and oil	3,258,586	2,802,353
Motor vehicle expenses	15,844	-
Functions / Events	251,610	168,383
Impounding Of Animals	33,394	57,389
Insurance	517,239	673,879
IT expenses	16,216	20,814
Library Expenses	318,078	812,652
Staff welfare	212,675	371,500
Legal Costs	1,987,116	2,157,365
Membership Fees	1,924,974	678,890
Pms	-	195,022
Postages	260,782	116,077
Printing and stationery	462,090	791,831
Assets expensed	505,450	-
Protective clothing	662,661	50,596
Water	-	61,527
Safety Equipment	1,224	55,824
Special Programmes	174,057	220,840
Sports Council	11,575	105,622
Stores & Materials	229,346	246,908
Subsistence & Travelling	3,281,359	3,106,801
Sundries	1,113,270	1,264,172
Telephone & Communication	1,924,649	1,415,371
Traffic /Road Signs	26,858	7,500
Training Levies	728,030	748,730
Valuation Roll (Msig)	-	113,560
Ward Comm Activities & Train	407,860	435,759
Youth Dev. Programmes	100,244	144,214
Interdepartmental Charges	6,233,762	8,359,547
Total General Expenses	58,677,173	34,910,843

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Interdepartmental Charges are charged to other trading and economic services for support services rendered

General expenses have been restated to account for corrections of prior year balances. Refer to Note 57 on "Correction of Error" for details of the restatement.

42. Loss on write-off of property, plant and equipment

Loss on disposal of Assets	(156,569)	-
Assets were disposed off at a public auction on 24 July 2015.		

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Figures in Rand	2016	2015
43. Cash generated from operations		
Deficit	(72,548,953)	(10,275,165)
Adjustments for:		
Depreciation and amortisation	58,959,838	58,417,420
Loss on sale of assets and liabilities	156,569	-
Rent received - Straight-lining of operating lease receivables	13,032	8,674
Fair value adjustments	(24,091,990)	(21,155,991)
Finance costs - Finance leases	378,967	-
Contribution to Employee Benefit Liability - Non current	6,284,193	4,265,961
Contribution to Employee Benefit Liability - Current	137,425	250,580
Rehabilitation of landfill site movements	246,132	224,860
Leave accrued contributions	703,061	1,626,441
Impairment losses: Provision for doubtful debts - exchange transactions	44,652,912	79,423,257
Impairment losses: Provision for doubtful debts - Non exchange transactions	358,992,339	338,047,297
Changes in working capital:		
Inventories	(219,465)	(396,224)
Receivables from exchange transactions	(403,645,252)	(417,470,554)
Receivables from non exchange transactions (Rates)	7,480,163	13,035,990
Receivables from non exchange transactions (other)	1,306,893	2,162,071
Payables from exchange transactions	92,788,991	619,111
VAT	(637,784)	6,080,155
Payables from non exchange transactions	10,305,495	17,457,026
Unspent conditional grants and receipts	16,205,388	315,077
Consumer deposits	17,712	1,069,987
	97,485,666	73,705,973
44. Non-cash investing and financing transactions		
The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2015/16 financial year.		
45. Unauthorised expenditure		
Reconciliation of Unauthorised Expenditure:		
Opening balance	63,332,444	53,733,265
Unauthorised Expenditure current year	179,225,375	63,332,444
Approved by Council or condoned	(63,332,444)	(53,733,265)
Unauthorised Expenditure awaiting authorisation	179,225,375	63,332,444
46. Irregular expenditure		
Opening balance	204,612,862	182,734,386
Add: Irregular Expenditure - current year	63,530,788	45,709,846
Less: Amounts condoned	-	(23,831,370)
Irregular Expenditure awaiting write off	268,143,650	204,612,862

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46. Irregular expenditure (continued)

Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	
Did not meet requirements to be registered on database of suppliers.	To be submitted to Council to be written off	1,047,344
Goods & Service between R30 000 and R200 000 were obtained without going through the procurement process	To be submitted to Council to be written off	3,664,520
Goods & Services above R200 000 obtained without obtaining required price quotations	To be submitted to Council to be written off	3,037,896
Awards which did not go through the procurement process	To be submitted to Council to be written off	19,036,733
Awards made to suppliers with municipal account on arrears	To be submitted to Council to be written off	13,207,980
No advert for tender awarded	To be submitted to Council to be written off	18,304,863
Procurement processes were not followed on the second appointment	To be submitted to Council to be written off	5,014,797
Inappropriate deviations	To be submitted to Council to be written off	216,655
		63,530,788

Details of irregular expenditure - prior year

Incident	Disciplinary steps taken/criminal proceedings	
Irregular expenditure include expenditure contrary to SCM Processes. Goods & Services with transaction value below R200 000 procured without obtaining the required price quotations.	To be submitted to Council to be written off	3,713,310
Irregular expenditure include expenditure contrary to SCM Processes. Goods & Services with transaction value above R200 000 procured without obtaining the required price quotations or following the SCM processes	To be submitted to Council to be written off	6,397,795
Tax Clearance not obtained	To be submitted to Council to be written off	178,117
All quotations not obtained	To be submitted to Council to be written off	461,411
Bidders in service of the state	To be submitted to Council to be written off	5,350,569
Unsatisfactory deviations	To be submitted to Council to be written off	19,288
Supplier municipal accounts not submitted with bids	To be submitted to Council to be written off	17,982,207
Bids not advertised for the appropriate timeframe	To be submitted to Council to be written off	11,607,149
		45,709,846

Further instances relating to procurement of Goods and Services and Capital Expenditure are under investigation.

47. Fruitless and wasteful expenditure

Opening balance	301,800	297,290
Fruitless and Wasteful Expenditure current year	617,797	4,510
Condoned or written off by Council	-	-
Fruitless and Wasteful Expenditure awaiting condonement	919,597	301,800

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised Local government - SALGA

Opening balance	-	-
Current year subscription / fee	63,235	678,890
Amount paid - current year	(63,235)	(678,890)
Balance Unpaid (included in Creditors)	-	-

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Opening balance	-	-
Current year subscription / fee	2,968,744	2,817,890
Amount paid - current year	(2,968,744)	(2,817,890)
Balance Unpaid (included in Creditors)	-	-

PAYE, Skills Development Levy and UIF

Opening balance	-	-
Current year subscription / fee	16,159,027	14,591,954
Penalties and Interest accrued	254,689	-
Amount paid - current year	(16,159,027)	(14,591,954)
Penalties and Interest paid	(117,447)	-
Balance Unpaid (included in Creditors)	137,242	-

Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	25,882,360	21,663,813
Amount paid - current year	(25,882,360)	(21,663,813)
Balance Unpaid (included in Creditors)	-	-

VAT

The net of VAT input payables and VAT output receivables are shown in Note 6. All VAT returns have been submitted by the due date throughout the year.

During the years under review, the following VAT payments have been made to SARS:

VAT receivable	2,844,249	2,206,464
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding:

June 30, 2016

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
I. Obuseng	780	12,859	13,639
P.T. Selonyane	744	216	960
E.T. Tiroyame	1,795	5,402	7,197
G. M. Vos	-	306,554	306,554
P.D. Moyo	2,298	-	2,298
O.E. Hantise	853	1,516	2,369
J.C Kaars	-	28,176	28,176
J. Johnson	7,509	108,397	115,906
V.L. Gorrah	354	-	354
B.F van Wyk	2,649	50,178	52,827
F. Visser	1,874	11,966	13,840
Total Councillor Arrear Consumer Accounts	18,856	525,264	544,120

June 30, 2015

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
O.E. Hantise	632	4,063	4,695
S. Kaars	195	28,633	28,828
G.M. Vos	12,221	31,665	43,886
Total Councillor Arrear Consumer Accounts	13,048	64,361	77,409

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Additional Disclosure on transactions with close family members of persons in service of the state

In terms of section 45 of the Municipal Supply Chain Management Regulations the municipality must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months.

During the current financial year quotations were requested from three suppliers for office supplies. One of the suppliers is a close family member of an employee that is in service of the state.

The lowest quotation, and winning bid, went to this supplier, and the transaction value of the goods purchased was an amount of R 78 659.32

Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Department	Date	Successful tenderer	Reason	Amount
Gamagara Local Municipality	Year 2015/16	Various case	Various reasons like preferred supplier & venue, urgency, only 1 or 2 suppliers registered on database, specialised products, limited to 1 supplier.	18,320,293

Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Electricity

		Lost Units	Value
30 June 2016	Unaccounted Electricity Losses	4,031,637	4,132,976
30 June 2015	Unaccounted Electricity Losses	15,312,908	13,538,890

Electricity Losses occur due to inter alia , technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections).

The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Volumes in kWh/year:

System Input Volume	102,634,735	108,056,202
Billed Consumption	(98,603,098)	(92,743,294)

Distribution Loss

Percentage Distribution Loss	3.93 %	14.17 %
Loss (R):	4,132,976	13,538,890

Calculated as follows :

Water

		Lost Units	Value
30 June 2016	Unaccounted Water Losses	1,409,011	12,076,024
30 June 2015	Unaccounted Water Losses	33,614	264,799

Water Losses occur due to inter alia , leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections.

The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported.

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49. Commitments

Authorised capital expenditure

Approved and contracted for

• Infrastructure	56,508,257	50,333,654
• Other	-	-

Total Capital Commitments

56,508,257 **50,333,654**

Total capital commitments

Already contracted for but not provided for

56,508,257 **50,333,654**

This expenditure will be financed from:

• Government Grants	56,508,257	50,333,654
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Authorised operational expenditure

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

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50. Financial instruments disclosure

50.1 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash and short-term investments

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on, as a result of the short-term maturity of these assets and liabilities.

No Financial Instruments of the municipality have been reclassified during the year.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

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Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

June 30, 2016	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Call deposits	-	225,613	-	225,613
Cash and Cash Equivalents	-	1,800	-	1,800
Bank Balance	-	13,069,001	-	13,069,001
Total Financial Assets	-	13,296,414	-	13,296,414
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Total Financial Instruments	-	13,296,414	-	13,296,414
June 30, 2015	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Call deposits	-	8,218,788	-	8,218,788
Cash and Cash Equivalents	-	1,800	-	1,800
Total Financial Assets	-	8,220,588	-	8,220,588
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Bank overdraft	-	(27,239,699)	-	(27,239,699)
Total Financial Liabilities	-	(27,239,699)	-	(27,239,699)
Total Financial Instruments	-	(19,019,111)	-	(19,019,111)

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50.2 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2013

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity which consist of Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

Gearing Ratio

The gearing ratio at the year-end was as follows:

Debt	242,256,666	140,377,121
Cash and Cash Equivalents	(13,296,414)	(8,220,588)
Net Debt	228,960,252	132,156,533
Equity	901,168,095	973,717,047
	25.41 %	13.57 %

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

50.3 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

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50.4 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 50.8 and 50.9 to the Annual Financial Statements.

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50.5 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 50.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

50.5.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

50.5.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

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50.6 Credit Risk Management

Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with First National Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists based on the payment history of the parties.

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The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Receivables from Exchange Transactions	1,461,784	8,941,949
Receivables from Non-exchange Transactions	4,058,242	5,365,135
Bank, Cash and Cash Equivalents	13,296,414	(19,019,111)
Maximum Credit and Interest Risk Exposure	18,816,440	(4,712,027)

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

Consumer Debtors:		
- Household	88.27 %	83.48 %
- Industrial / Commercial	8.83 %	11.10 %
- National and Provincial Government	2.90 %	5.42 %
Other Debtors:		
Total Credit Risk	100.00 %	100.00 %

Bank and Cash Balances

First National Bank	12,888,854	6,177,266
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Credit quality of Financial Assets:

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from Exchange Transactions

Counterparties without external credit rating:-
Group 3

- - -

Receivables from Non-exchange Transactions

Counterparties without external credit rating:-
Group 1
Group 3

- - -

Total Receivables from Non-exchange Transactions

- - -

Credit quality Groupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

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50.7 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 50 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

June 30, 2016

	Total R	6 months or less R	6 - 12 months R	1 - 2 Years R	2 - 5 Years R	More than 5 Years R
Non-interest Bearing	93,875,564	93,875,564				
- Payables from Exchange transactions	93,875,564	93,875,564	-	-	-	-
Fixed Interest Rate Instruments	28,705,676	2,032,887	5,418,752	4,592,494	16,661,543	-
Other non-current liabilities	21,254,037	-	-	4,592,494	16,661,543	-
- DBSA Loan	21,254,037	-	-	4,592,494	16,661,543	-
Other current liabilities	7,451,639	2,032,887	5,418,752	-	-	-
- DBSA Loan	7,451,639	2,032,887	5,418,752	-	-	-
	122,581,240	95,908,451	5,418,752	4,592,494	16,661,543	-

June 30, 2015

	Total R	6 months or less R	6 - 12 months R	1 - 2 Years R	2 - 5 Years R	More than 5 Years R
Non-interest Bearing	1,086,573	1,086,573				
- Payables from Exchange transactions	1,086,573	1,086,573	-	-	-	-
Variable Interest Rate Instruments	27,239,699	27,239,699				
- Bank Overdraft	27,239,699	27,239,699	-	-	-	-
Fixed Interest Rate Instruments	29,237,975	1,849,533	1,953,085	4,180,995	21,254,362	-
Other non-current liabilities	25,435,357	-	-	4,180,995	21,254,362	-
- DBSA Loan	25,435,357	-	-	4,180,995	21,254,362	-
Other current liabilities	3,802,618	1,849,533	1,953,085	-	-	-
- DBSA Loan	3,802,618	1,849,533	1,953,085	-	-	-
	57,564,247	30,175,805	1,953,085	4,180,995	21,254,362	-

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

June 30, 2016

	Total R	6 months or less R	6 - 12 months R	1 - 2 Years R	2 - 5 Years R	More than 5 Years R
Non-interest Bearing	531,971,017	103,663,255		-	-	- 428,307,762

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- Trade Receivables from Exchange Transactions	128,287,879	38,629,709	-	-	- 89,658,170
- Trade Receivables from Non-exchange Transactions	390,386,724	51,737,132	-	-	- 338,649,592
- Cash and Cash Equivalents	13,296,414	13,296,414	-	-	-
	531,971,017	103,663,255			- 428,307,762

June 30, 2015

	Total R	6 months or less R	6 - 12 months R	1 - 2 Years R	2 - 5 Years R	More than 5 Years R
Non-interest Bearing	370,133,171	97,501,571				- 272,631,600
- Trade Receivables from Exchange Transactions	99,459,207	39,634,089	-	-	-	- 59,825,118
- Trade Receivables from Non-exchange Transactions	262,453,376	49,646,894	-	-	-	- 212,806,482
- Cash and Cash Equivalents	8,220,588	8,220,588	-	-	-	-
	370,133,171	97,501,571				- 272,631,600

50.8 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

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51. Multi Employer Retirement Benefit Information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R 6 421 618 (2015: R4 516 541) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

Defined Benefit Scheme

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013. The scheme both operates a Defined benefit and Defined contribution scheme.

The statutory valuation performed as at 30 June 2013 revealed that the fund had a deficit of R 10 million (30 June 2012: R 18 million), with a funding level of 99,7% (30 June 2012: 99,4%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Defined Contribution Schemes

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the assets of the fund amounted to R 31,425 million (30 June 2012: (R 7,980) million, with funding levels of 100,2% and 100,0% (30 June 2012: 99,9% and 100%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund:

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The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2012.

The valuation performed as at 30 June 2012 revealed that the assets of the fund amounted to R 1,183 (30 June 2011: R 1,041) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

National Fund for Municipal Workers - Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The net assets available for benefits were R 6,981 (2012: R 5,646) million.

The statutory valuation performed as at 1 July 2013 revealed that the fund had a deficit of R 65 (30 June 2012: R 63) million, with a funding level of 99,97% (30 June 2012: 99,89%). The contribution rate paid by the members (9%) and the municipalities (18%) is sufficient to fund the benefits accruing from the fund in the future.

Lekana Pension Fund (Previously SAMWU National Provident Fund)

The valuation performed as at 30 June 2008 revealed that the assets of the fund amounted to R 2,455,947 million (30 June 2005: R 1,511,461 million) with funding levels of 100% (30 June 2005: 100%). The contribution rate paid by the members (7,5%) and the municipalities (18%) is sufficient to fund the benefits accruing from the fund in the future. The fund is certified to be financially sound as at 30 June 2008.

Sanlam Umbrella Provident Fund

No details could be provided for the fund and of any valuation performed. The registrar granted valuation exemption to the fund and the date on which the valuation exemption for the fund will terminate is 31 December 2017. The contribution rate paid by the members is 9% and the municipality 18%.

None of the above mentioned plans are State Plans.

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52. Related parties

Related party relationships:

Councillors:

Ward	Surname	Initials
1	Vos	G.
2	Tiroyame	T.E.
3	Gorrah	V.L.
4	Obuseng	I.
5	Selonyane	P.
Mayor	Moyo	D.P.
Proportional	Du Plessis	H.
Proportional	Hantise	O.E.
Proportional	Kaars	J.C.
Proportional	Johnson	J.

Directors:

	Surname	Initials
Municipal Manager	Itumeleng	T.C.
Chief Financial Officer	Grond	N.M.
Director Corporate Services	Seetile	L.
Director Infrastructure	Ositang	K.N.
Director Community Services	Apools-Sebogodi	R.C.
Director Strategic Services	Leserwane	K.P.

Services rendered to related parties

	Rates charges	Service charges	Sundry charges	Outstanding balances
For the Year ended 30 June 2016				
Councillors	58,306	194,376	-	543,703
Section 57 Personnel	43,420	45,177	66,000	123,774
Total Services	101,726	239,553	66,000	667,477
Councillors				
Mayor	D.P. Moyo	-	23,683	-
Councillor : PR	H. Du Plessis	8,864	10,637	(417)
Councillor : PR	O.E. Hantise	-	4,337	-
Councillor : PR	J.C. Kaars (Resigned Jan 2016)	180	1,097	-
	B.F. Van Wyk (Sworn in June 2016)	-	2,649	-
Councillor : PR	J. Johnson (Passed away during Aug 2015)	-	33,025	-
Councillor : PR	F Visser	-	3,416	-
Councillor : Ward 1	G. Vos	47,327	81,072	-
Councillor : Ward 2	E.T. Tiroyame	1,125	20,337	-
Councillor : Ward 3	V.L. Gorrah	315	4,841	-
Councillor : Ward 4	I. Obuseng	-	3,973	-
Councillor : Ward 5	P. Selonyane	495	5,310	-
Section 57 Personnel:				
Municipal Manager	C. Itumeleng	-	10,415	36,000
Chief Financial officer	N.M. Grond	-	3,917	30,000
Director Infrastructure	K.N. Ositang	8,324	8,708	-
Director Community Services	R.C. Apools-Sebogodi	35,096	22,137	-
Director Strategic Services	K.P. Leserwane	-	-	-
		101,726	239,554	66,000
				667,478

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52. Related parties (continued)		
For the Year ended 30 June 2015		
Councillors		19,999
Section 57 Personnel		36,651
Total Services		56,650
Councillors:		
Mayor		D.P. Moyo
Councillor : PR		H. Du Plessis
Councillor : PR		O.E. Hantise
Councillor : PR		J.C. Kaars
Councillor : Ward 1		G. Vos
Councillor : Ward 2		T.E. Tiroyame
Councillor : Ward 3		V.L. Gorrah
Councillor : Ward 5		P. Selonyane
Section 57 Personnel:		
Municipal Manager		T.C. Itumeleng
Chief Financial officer		N.M. Grond
Director Corporate Services		L. Seetile
Director Infrastructure		K.N. Ositang
Director Community Services		R.C. Apools-Sebogodi
Director Strategic Services		K.P. Leserwane
		56,650
		131,316
		72,137
		157,860

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in notes 31 and 32 respectively, to the Annual Financial Statements.

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53. Contingencies

Contingent liabilities

Guarantees

— — —

The municipality did not issue any guarantee during the financial years under review.

Dispute on damages claimed	—	10,000
	15,000	15,000
	12,000	20,000
	20,000	—
	47,000	45,000

The municipality is involved in litigation with Mr Moolman. Matter was defended. Notices of exception was filed. There is an instruction to pend matter as the Plaintiff did not reply for trial date. Estimate cost is R15 000.

Municipality is involved in a litigation against Mr Ben Moses. Matter was defended and all pleadings were exchanged. Matter was ready for trial. Settlement agreement was reached. Municipality to pay Plaintiff R3700 plus costs on a Party/party scale. Payment still outstanding. Estimated cost is R12 000.

The Municipality is involved in a litigation claim against Transnet Freight Rail. Matter was defended. Pleadings were filed by both parties. Plaintiff arranged trial date. Settlement negotiations were followed. Gamagara municipality to pay 70% of claim amount and 70% of Plaintiff's taxed cost. Payment is still outstanding. The estimate amount is R20 000.

The municipality is involved in litigation with BK Chabemang emanating from a motor vehicle accident which involved a municipal vehicle. The possible liability amounts to R 10,000. The municipality is defending the case through BBM attorneys. This matter was resolved

Dispute on damages claimed	20,000	20,000
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The municipality is involved in litigation with Transnet SOC Ltd. Mr Tshepo Hawtrey Gaothaelwe collided with Transnet Isuzu bakkie KB250 DC on 15 May 2012 and the intersection Hendrick Van Eck and Ian Flemming while on duty driving the municipal vehicle a Nissan NP200 (CCF 494 NC). The outcome of the matter is still unknown.

Contrary to section 20(1) of the Environmental Conservation Act (Act 50 of 2003) the municipality's landfill sites have not been issued with a permit by the Department of Economic and Environmental Affairs. In terms of section 29(4), for non-compliance of section 20(1) the municipality may incur a fine to the amount of R 10 million per contravention.

Contingent assets

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

54. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2016.

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55. Going concern

Management considered the following matters relating to the Going Concern:

- (i) During 2015 the Council adopted the 2015/16 to 2016/17 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents that is reflected in the Budget.
- (ii) Current liabilities exceed current assets.
- (iii) Debt collection and arbitration processes are being put in place to ensure the collection of debt owed to the municipality is being put in place.
- (iv) The Annual Financial Statement has deficits for the current and prior year.

The municipality thus has going concern risks to meet all its obligations..

56. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Remuneration of councilors: One councilor passed on during interim and replacement not paid retrospectively

Impairment loss: Increase in debt mainly due to o/s rates by mines

Finance charges: The loan balanced decreased and accordingly interest paid

Repairs and maintenance: Less maintenance performed as anticipated revenue not did not realize

Bulk purchases: Outstanding payments on electricity accounts

Contract services: Contracts discontinued

Transfers and Subsidies: RDP housing underperformed

Services charges: Anticipated revenue not billed

Rental of facilities and equipment: Anticipated revenue not billed

Interest received: Less cash invested for period under review

Agency services: Due to growth of the economy

Other Income: Anticipated revenue not billed

Property rates: Billed amounts exceed actual cash

Licenses and permits: Anticipated revenue not billed

Government grants and subsidies: Grants committed not realized

Public contributions and donations: Commitments not realized

Fines, Penalties and Forfeits: Reductions by the court

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56. Reconciliation between budget and statement of financial performance (continued)

The items below were not budgeted for as part of the Statement of Financial Position and thus the variance:

- Operating lease asset
- Receivables from non-exchange transactions
- VAT receivable
- Heritage assets
- Finance lease obligation
- Taxes and transfers payable
- Consumer deposits
- Unspent conditional grants
- Provisions – current portion
- Employee benefit obligation

The items below were not budgeted for as part of the Cashflow Statement and thus the variance:

- Public Contributions and Donations
- Remuneration of Councillors (Included in employee cost)
- Purchase of other intangible assets
- Finance lease payments

Reconciliation of budget surplus/deficit with the surplus/deficit in the Statement of Financial Position:

Inventory: Budgeted figures were lower than the prior year actuals. There is an increase in the water quantities at yearend

Consumer debtors decreased with the adjustment in the impairment provision

Cash and cash equivalents were higher than expected.

Investment Property had fair value adjustments that were not budgeted for.

Property, Plant and Equipment budgeted figures were higher than the prior year actuals.

Other financial liabilities: No additional loans were entered into during the year as expected.

Payable increased significantly due to cashflow constraints.

Provisions were budgeted for together with employee benefits. Budgeted amounts were lower than the prior year actual expenses.

Accumulated Surplus was overbudgeted for.

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56. Reconciliation between budget and statement of financial performance (continued)

Reconciliation of budget surplus/deficit with the surplus/deficit in the Cashflow Statement:

Property rates Billed amounts exceed actual cash collection

Services charges: Anticipated revenue not billed or collected

Interest received: Less cash was invested for period under review

Other receipts: Anticipated revenue not billed or collected

Suppliers and Employees – increase in expenditure for the year due to underbudgeting

Finance costs: The loan balanced decreased and accordingly interest paid

Purchase of property, plant and Equipment: More capital outlay was budgeted for than what materialised

Proceeds from sale of property, plant and equipment: Cash received on disposal was lower than expected

Repayment of borrowings: Not all repayments were made.

Proceeds from financial liabilities did not materialise

Net deficit per the statement of financial performance

(72,548,953) (10,275,165)

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57. Prior period errors

Statement of financial position	Prior Year 2014/15	Adjustment	*Restated Prior Year 2014/15
Inventories	976,126	9,425	985,551
Receivables from exchange transactions	81,672,020	(72,730,071)	8,941,949
Receivables from non-exchange transactions	287,908,475	(282,543,340)	5,365,135
Property, plant and equipment	869,544,952	20,972,873	890,517,825
Investment property	161,314,526	32,995,231	194,309,757
Provisions	4,517,325	(1,915,508)	2,601,817
Accumulated surplus	1,273,097,423	(299,380,376)	973,717,047
Statement of Financial Performance			
Service charges	269,758,997	(3,165,456)	266,593,541
Other income	2,622,822	(822,688)	1,800,134
Property rates	391,502,832	(566,970)	390,935,862
Depreciation and amortisation	(58,213,895)	(203,525)	(58,417,420)
Impairment loss	(66,635,371)	(350,835,183)	(417,470,554)
Finance costs	(3,352,373)	(8,420)	(3,360,793)
Repairs and maintenance	(15,700,946)	208,429	(15,492,517)
Contracted services	(11,025,738)	(2,617,467)	(13,643,205)
General Expenses	(35,037,155)	126,312	(34,910,843)
Fair value adjustments	-	21,155,991	21,155,991

Corrections were made to prior year figures, details of the corrections are described below:

Inventories

Inventory was adjusted to ensure that the cost is determined using the weighted average cost of commodities. The valuation adjustment on the system was not performed in the prior year.

Receivables from exchange transactions

Exchange receivables were misstated in the prior year due to the impairment for doubtful debt. In addition to this certain debtors had account corrections relating to the prior year that were retrospectively changed.

Receivables from non-exchange transactions

Non-exchange receivables were misstated in the prior year due to the impairment for doubtful debt. In addition to this certain debtors had account corrections relating to the prior year that were retrospectively changed.

Property, plant and equipment

Not all assets were included in the asset register in the prior year. The value of these assets were corrected to reflect the correct amounts and useful lives. New assets were added to the register.

Investment property

Not all Investment Property were included in the asset register in the prior year. The value of these properties were corrected to reflect the correct amounts and useful lives. New investment property items were added to the register. Also, the fair value of these were adjusted at the reporting date as required by GRAP.

Provisions

The valuer for landfill rehabilitation adjusted the methodology applied to value future costs in order to comply to norms used in the industry. These adjustments changed the valuation of provisions retrospectively.

Accumulated surplus

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57. Prior period errors (continued)

The accumulated surplus was adjusted for the net effect of all the changes above.

Service charges

Services charges relate to certain debtors had account corrections relating to the prior year that were retrospectively changed.

Other income

Other revenue relate to certain debtors had account corrections relating to the prior year that were retrospectively changed.

Property rates

Property rates relate to certain debtors had account corrections relating to the prior year that were retrospectively changed.

Depreciation and amortisation

Depreciation changes were made in order to correct the useful lives of assets uncorrected in the prior year. New assets were also added to the register that affected depreciation.

Impairment loss

The impairment provision for Exchange and Non-exchange receivables were misstated in the prior year due to the impairment for doubtful debt.

Finance costs, Repairs and maintenance, Contracted services, General Expenses

Transactions for assets, debtors and reclassification resulted in the adjustment of prior year expenditure.

Fair value adjustments

The fair value of investment properties were adjusted at the reporting date as required by GRAP.

58. Fair value adjustments

Investment property (Fair value model)

24,091,990 21,155,991

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59. Change in estimate

Property, plant and equipment

During the year the following changes were made to the estimations for depreciation / amortisation resulting from reassessment of useful lives. The following categories are affected:

	Value derived using the original estimate	Value derived using amended estimate	Change in estimate
Total	56,459,654	54,913,644	(1,546,010)
Infrastructure	44,385,656	43,588,857	(796,799)
Community	6,640,605	6,158,251	(482,354)
Other Property Plant and Equipment	4,646,722	4,257,776	(388,946)
Intangible Assets	786,671	908,760	122,089

The useful life increased with an average of 2 years, thus depreciation decreased.

Appendix A

June 2016

Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at Tuesday, June 30, 2015 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at Thursday, June 30, 2016 Rand
DBSA	61000367	30/06/2021	13,139,661	531,189	854,938
DBSA	61006899	30/06/2021	7,257,893	326,016	459,555
DBSA	61006937	30/06/2021	8,840,421	460,028	535,041
			29,237,975	1,317,233	28,705,674

Development Bank of South Africa

Appendix D

June 2016

Segmental Statement of Financial Performance for the year ended Prior Year Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
21,872,769	30,438,058	(8,565,289)	Executive & Council/Mayor and Council	24,102,318	87,711,068	(63,608,750)
26,627,913	21,172,071	5,455,842	Budget & Treasury Office	400,011,171	28,698,275	371,312,896
2,745	10,646,772	(10,644,027)	Corporate Services	-	12,582,752	(12,582,752)
21,267,691	45,483,926	(24,216,235)	Community Services	21,788,533	57,817,623	(36,029,090)
195,268	8,962,210	(8,766,942)	Shared Services	15,861	12,097,699	(12,081,838)
261,240,369	169,649,834	91,590,535	Technical Services	281,833,294	195,352,854	86,480,440
331,206,755	286,352,871	44,853,884		727,751,177	394,260,271	333,490,906

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun			
MIG Projects	MIG	-	5,935,000	3,929,000	-	1,142,727	3,422,556	3,023,311	2,769,624	N/A	Yes	N/A
Library	Province	769,000	-	769,000	-	64,637	54,959	61,571	34,784	N/A	Yes	N/A
COGSTA	Province	400,328	1,979,581	838,419	-	-	-	-	-	N/A	Yes	N/A
Equitable Share	National Treasury	9,551,000	6,109,000	5,731,000	-	-	-	-	-	N/A	Yes	N/A
INEP		20,000,000	-	-	-	-	158,866	-	-	N/A	Yes	N/A
Housing	Province	-	-	-	-	1,085,684	1,485,346	-	1,029,083	N/A	Yes	N/A
MSIG	DPLG	930,000	-	-	-	11,516	179,556	41,217	-	N/A	Yes	N/A
MWIG	DWAF	-	-	-	-	-	288,515	-	-	N/A	Yes	N/A
EPWP	Province	400,000	300,000	300,000	-	295,759	422,162	417,570	295,271	N/A	Yes	N/A
FMG	National Treasury	1,600,000	-	-	-	438,745	212,034	125,000	-	N/A	Yes	N/A
		33,650,328	14,323,581	11,567,419	-	3,039,068	6,223,994	3,668,669	4,128,762			